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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended December 31, 1991 Commission File No. 0-11852

Vertical Software Systems, Inc.
(Exact name of Registrant as specified in its charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

84-0917516
(I.R.S. Employer
Identification No.)

P. O. Box 5088, Wheat Ridge, Colorado 80034
Address of principal executive offices

Registrant's telephone number, including area code (303) 841-0226

None
Former address if changed since last report

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

(1) Yes X No
(2) Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

71,469,172 common shares were outstanding as of December 31, 1991.

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VERTICAL SOFTWARE SYSTEMS, INC. AND SUBSIDIARY

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VERTICAL SOFTWARE SYSTEMS, INC. AND SUBSIDIARY
Consolidated Balance Sheets

ASSETS

	December 31, 1991 (Unaudited)	June 30, 1991
Current assets:		
Cash	\$ 50,158	\$ 4,642
Receivable from officers	22,000	-
Royalties receivable	<u>20,000</u>	<u>110,263</u>
Total current assets	<u>92,158</u>	<u>114,905</u>
Property and equipment:		
Furniture and fixtures	4,753	4,753
Equipment	<u>87,277</u>	<u>87,277</u>
	92,030	92,030
Less accumulated depreciation	<u>(53,334)</u>	<u>(50,173)</u>
Total property and equipment	<u>38,696</u>	<u>41,857</u>
Other assets (net):		
Software and hardware development costs	30,239	48,988
Software rights	4,073	6,293
Costs in excess of net assets of Vertical Manufacturing Corp. as of date of acquisition	<u>1,597</u>	<u>11,257</u>
Total other assets	<u>35,909</u>	<u>66,538</u>
	<u>\$ 166,763</u>	<u>\$ 223,300</u>

The accompanying notes are an integral
part of the financial statements.

VERTICAL SOFTWARE SYSTEMS, INC. AND SUBSIDIARY
Consolidated Balance Sheets
(Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1991 (Unaudited)	June 30, 1991
Current liabilities:		
Accounts payable - trade	\$ 23,093	\$ 50,925
Accrued liabilities	<u>35,473</u>	<u>16,433</u>
Total current liabilities	<u>58,566</u>	<u>67,358</u>
Commitments		
Stockholders' equity:		
Common stock, \$.001 par value:		
Authorized - 100,000,000 shares		
Issued and outstanding -		
76,119,372 shares	76,119	76,119
Capital in excess of par value	2,673,384	2,673,384
Accumulated deficit	(2,495,856)	(2,448,111)
Less common stock in treasury,		
4,650,000 shares at cost	<u>(145,450)</u>	<u>(145,450)</u>
Total stockholders' equity	<u>108,197</u>	<u>155,942</u>
	<u>\$ 166,763</u>	<u>\$ 223,300</u>

The accompanying notes are an integral
part of the financial statements.

VERTICAL SOFTWARE SYSTEMS, INC. AND SUBSIDIARY
Consolidated Statements of Operations
(Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	1991	1990	1991	1990
Net sales	\$ -	\$ 7,891	\$ -	\$ 11,510
Cost of sales	-	2,502	-	1,790
Gross profit	-	5,389	-	7,720
Operating expenses:				
Marketing	-	18,836	-	45,112
Administrative	56,761	80,437	97,076	161,668
Total operating expenses	56,761	99,273	97,076	206,780
Operating income (loss)	(56,761)	(93,884)	(97,076)	(199,060)
Other income (expense):				
Royalties	20,000	101,329	53,895	195,973
Interest income	-	85	-	85
Interest expense	(53)	(1,646)	(73)	(3,344)
Other	(6,241)	-	(4,491)	-
Net income (loss)	\$ (43,051)	\$ 5,884	\$ (47,745)	\$ (6,346)
Income (loss) per common share	\$ -	\$ -	\$ -	\$ -
Weighted average common shares outstanding	71,469,372	71,469,372	71,469,372	71,469,372

The accompanying notes are an integral
part of these financial statements.

VERTICAL SOFTWARE SYSTEMS, INC. AND SUBSIDIARY
Consolidated Statement of Stockholders' Equity
From July 1, 1991 to December 31, 1991
(Unaudited)

	<u>Common stock</u>	<u>Capital in excess of par value</u>	<u>Accumulated deficit</u>	<u>Common stock in treasury</u>	<u>Total</u>
Balances at July 1, 1991	\$76,119	\$2,673,384	\$(2,448,111)	\$(145,450)	\$155,942
Net loss for the six months ended December 31, 1991	-	-	(47,745)	-	(47,745)
Balances at December 31, 1990	<u>\$76,119</u>	<u>\$2,673,384</u>	<u>\$(2,495,856)</u>	<u>\$(145,450)</u>	<u>\$108,197</u>

The accompanying notes are an integral
part of the financial statements.

VERTICAL SOFTWARE SYSTEMS, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	<u>1991</u>	<u>1990</u>	<u>1991</u>	<u>1990</u>
<u>Increase (Decrease) in Cash and Cash Equivalents</u>				
Cash flows from operating activities:				
Cash received from customers	\$ -	\$ 7,216	\$ -	\$ 11,973
Cash paid to suppliers and employees	(5,425)	(55,515)	(81,539)	(124,307)
Interest received	-	85	-	85
Interest paid	(51)	(1,646)	(72)	(3,342)
Net cash provided by operating activities	<u>(5,478)</u>	<u>(49,860)</u>	<u>(81,612)</u>	<u>(115,591)</u>
Cash flows from investing activities:				
Royalties received	<u>52,128</u>	<u>66,387</u>	<u>127,128</u>	<u>119,682</u>
Cash flows from financing activities:				
Principal payments on notes payable	<u>-</u>	<u>(12,500)</u>	<u>-</u>	<u>(32,258)</u>
Increase (decrease) in cash	46,650	(1,663)	45,516	(29,166)
Cash and cash equivalents:				
Beginning of period	<u>3,508</u>	<u>2,438</u>	<u>4,642</u>	<u>29,941</u>
End of period	<u>\$ 50,158</u>	<u>\$ 775</u>	<u>\$ 50,158</u>	<u>\$ 775</u>

The accompanying notes are an integral
part of the financial statements.

VERTICAL SOFTWARE SYSTEMS, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Continued)
(Unaudited)

Three months ended		Six months ended	
December 31,		December 31,	
1991	1990	1991	1990

Reconciliation of net (income) to net cash
used in operating activities

Net income (loss)	\$ (42,052)	\$ 5,884	\$ (47,745)	\$ (6,346)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	16,895	28,072	33,790	56,100
Royalties earned	(20,000)	(101,120)	(53,895)	(195,974)
Loss on restructuring of payables	6,740	-	4,490	-
Changes in assets and liabilities:				
Accounts receivable	-	(872)	-	462
Loans to officers	(1,000)	-	(22,000)	-
Prepaid expenses	-	(1,014)	-	(236)
Accounts payable	9,816	33,312	(15,292)	49,719
Accrued liabilities	25,624	(14,090)	19,040	(9,316)
Total adjustments	37,575	(55,744)	(33,867)	(109,245)
Net cash (used in) operating activities	\$ (5,478)	\$ (49,860)	\$ (81,612)	\$ (115,591)

The accompanying notes are an integral part of the financial statements.

VERTICAL SOFTWARE SYSTEMS, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of presentation

The consolidated financial statements included herein have been prepared by the Company without audit, except for the June 30, 1991 balance sheet which was audited. The statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary for a fair statement of the results of operations for the periods shown. These statements do not include all information required by generally accepted accounting principles to be included in a full set of financial statements. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K filed with the Securities and Exchange Commission for the year ended June 30, 1991.

VERTICAL SOFTWARE SYSTEMS, INC. AND SUBSIDIARY
Management's Discussion and Analysis of
Financial Condition and Results of Operations

Results of Operations

Three months ended December 31, 1991 compared to three months ended December 31, 1990.

Revenues decreased 100% from \$7,891 for the three months ended December 31, 1990 to \$0 for the three months ended December 31, 1991, due to the termination of all marketing activities.

Gross profits decreased 100% from \$5,389 for the three months ended December 31, 1990 to \$0 for the three months ended December 31, 1991, due again to the termination of all marketing activities.

Marketing expenses decreased 100% from \$18,836 for the three months ended December 31, 1990 to \$0 for the three months ended December 31, 1991, due again to the termination of all marketing activities.

Administrative costs decreased 29% from \$80,437 for the three months ended December 31, 1990 to \$56,761 for the three months ended December 31, 1991, due the elimination of all salaried employees and reductions in rent and legal expenses. Administrative costs declined despite a one-time \$35,000 charge to royalty expense for the DTS group; no further royalties to DTS will accrue in the future.

The decrease in operating expenses was partially offset by the decrease in gross profits, resulting in a 40% decrease in the operating loss from \$93,884 for the three months ended December 31, 1990 to \$56,761 for the three months ended December 31, 1991.

Royalty income decreased 80% from \$101,329 for the three months ended December 31, 1990 to \$20,000 for the three months ended December 31, 1991. This was due to a reduction of royalties from Xscribe as the result of a revision in the Exclusive License Agreement with Xscribe, and a cessation of royalties from AssemblyFab.

The reduction in the current quarter's operating loss was offset by decreased royalties, resulting in a net loss of \$43,053 for the three months ended December 31, 1991 compare to net income of \$5,884 for the three months ended December 31, 1990.

VERTICAL SOFTWARE SYSTEMS, INC. AND SUBSIDIARY
Management's Discussion and Analysis of
Financial Condition and Results of Operations

Six months ended December 31, 1991 compared to six months ended
December 31, 1990.

Revenues decreased 100% from \$11,510 for the six months ended December 31, 1990 to \$0 for the six months ended December 31, 1991, due to the termination of all marketing activities.

Gross profits decreased 100% from \$7,720 for the six months ended December 31, 1990 to \$0 for the six months ended December 31, 1991, due again to the termination of all marketing activities.

Marketing expenses decreased 100% from \$45,112 for the six months ended December 31, 1990 to \$0 for the six months ended December 31, 1991, due again to the termination of all marketing activities.

Administrative costs decreased 40% from \$161,668 for the six months ended December 31, 1990 to \$97,076 for the six months ended December 31, 1991, due the elimination of all salaried employees and reductions in rent and legal expenses. Administrative costs declined despite a one-time \$35,000 charge to royalty expense for the DTS group; no further royalties to DTS will accrue in the future.

The decrease in operating expenses was partially offset by the decrease in gross profits, resulting in a 51% decrease in the operating loss from \$199,060 for the six months ended December 31, 1990 to \$97,076 for the six months ended December 31, 1991.

Royalty income decreased 72% from \$195,973 for the six months ended December 31, 1990 to \$53,895 for the six months ended December 31, 1991. This was due to a reduction of royalties from Xscribe as the result of a revision in the Exclusive License Agreement with Xscribe, and a cessation of royalties from AssemblyFab.

The reduction in the current quarter's operating loss was offset by decreased royalties, resulting in a net loss of \$47,745 for the six months ended December 31, 1991 compare to \$6,346 for the six months ended December 31, 1990.

VERTICAL SOFTWARE SYSTEMS, INC. AND SUBSIDIARY
Management's Discussion and Analysis of
Financial Condition and Results of Operations

Liquidity and Capital Resources

The Company's liquidity improved slightly as of December 31, 1991 compared to June 30, 1991, as cash increased from \$4,642 to \$50,158, and working capital decreased from \$47,547 to \$33,592. The decrease in working capital resulted from a one-time \$35,000 charge to royalty expense for the DTS group; no further royalties to DTS will accrue in the future.

The major source of the Company's working capital is and will continue to be the royalties from Xscribe; in the past, Xscribe has often been late in paying royalties to the Company as they become due. Because there can be no assurance that Xscribe will make all payments due to the Company under the Exclusive License Agreement, the Company's ability to continue as a going concern is not assured.

The Company has eliminated or substantially reduced its expenditures for marketing, support, production and administration. If Xscribe continues to pay royalties as they become due, management believes that the Company's liquidity and working capital are adequate. If Xscribe fails to pay royalties as they become due, management is unable to determine whether the Company's liquidity and working capital situation are adequate.

The Company's liquidity had deteriorated as of December 31, 1990 as compared to June 30, 1990, as cash decreased from \$29,941 to \$775, while working capital increased from \$16,628 to \$46,381. The increase in working capital resulted from a \$75,000 increase in royalties from Xscribe.

VERTICAL SOFTWARE SYSTEMS, INC. AND SUBSIDIARY

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

(b) Reports on Form 8-K:

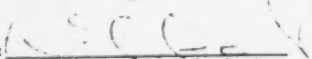
The Registrant did not file any reports on Form 8-K for the quarter ended December 31, 1991.

SIGNATURES

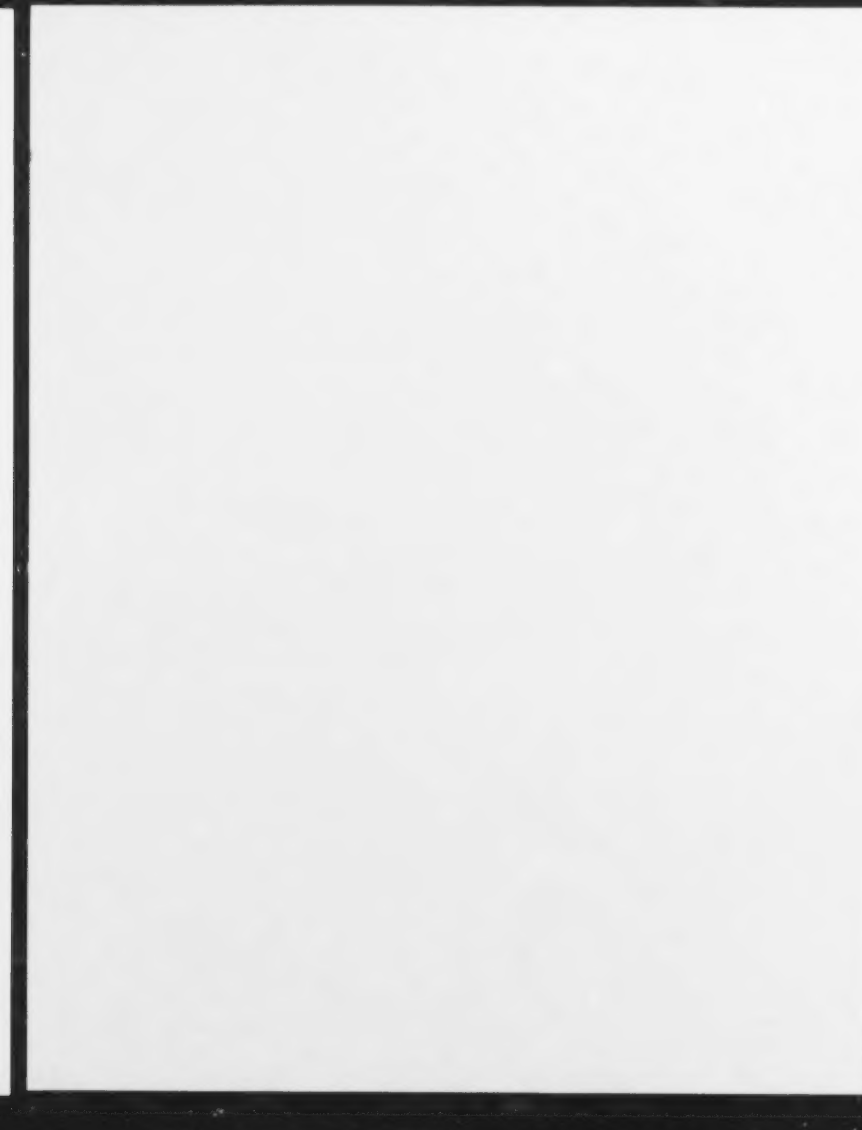
Pursuant to the requirements of the Securities Exchange Act of 1934 the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: June 19, 1992

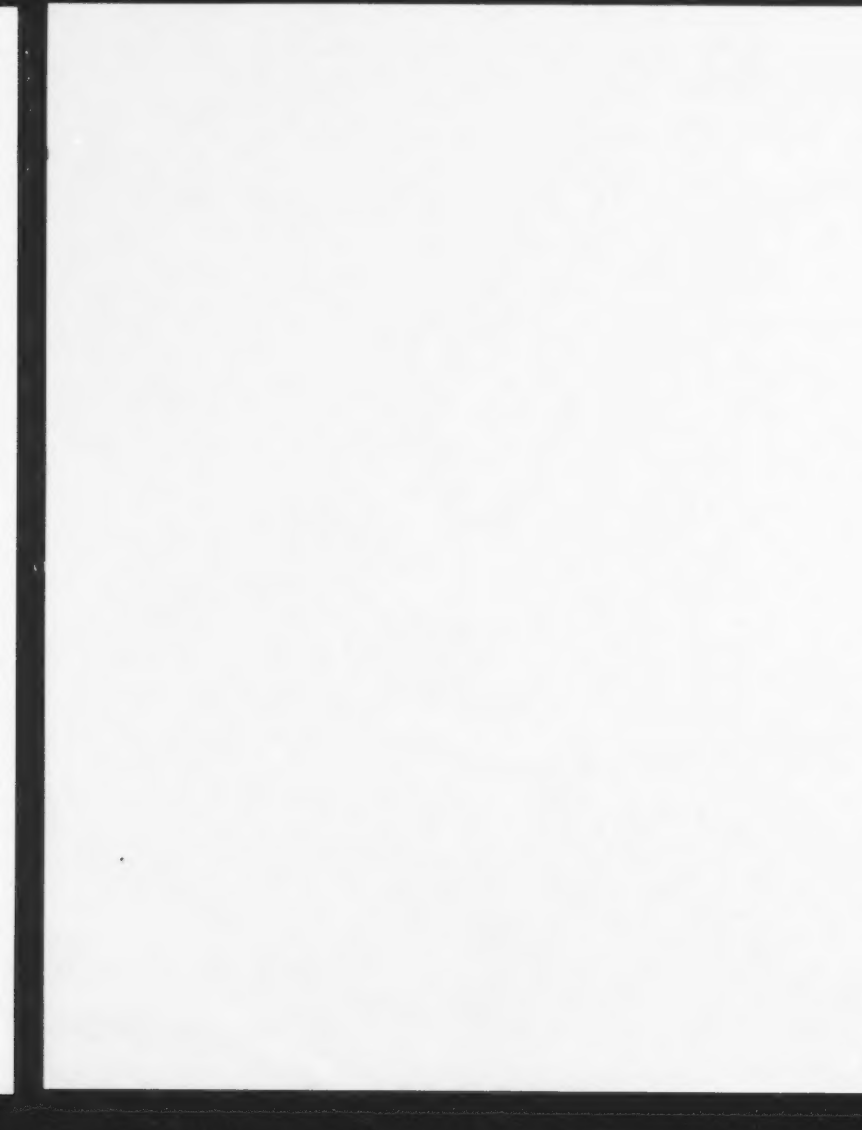
Vertical Software Systems, Inc.
(Registrant)

By: 

Daniel T. Pauls, Principal
Accounting and Principal
Financial Officer







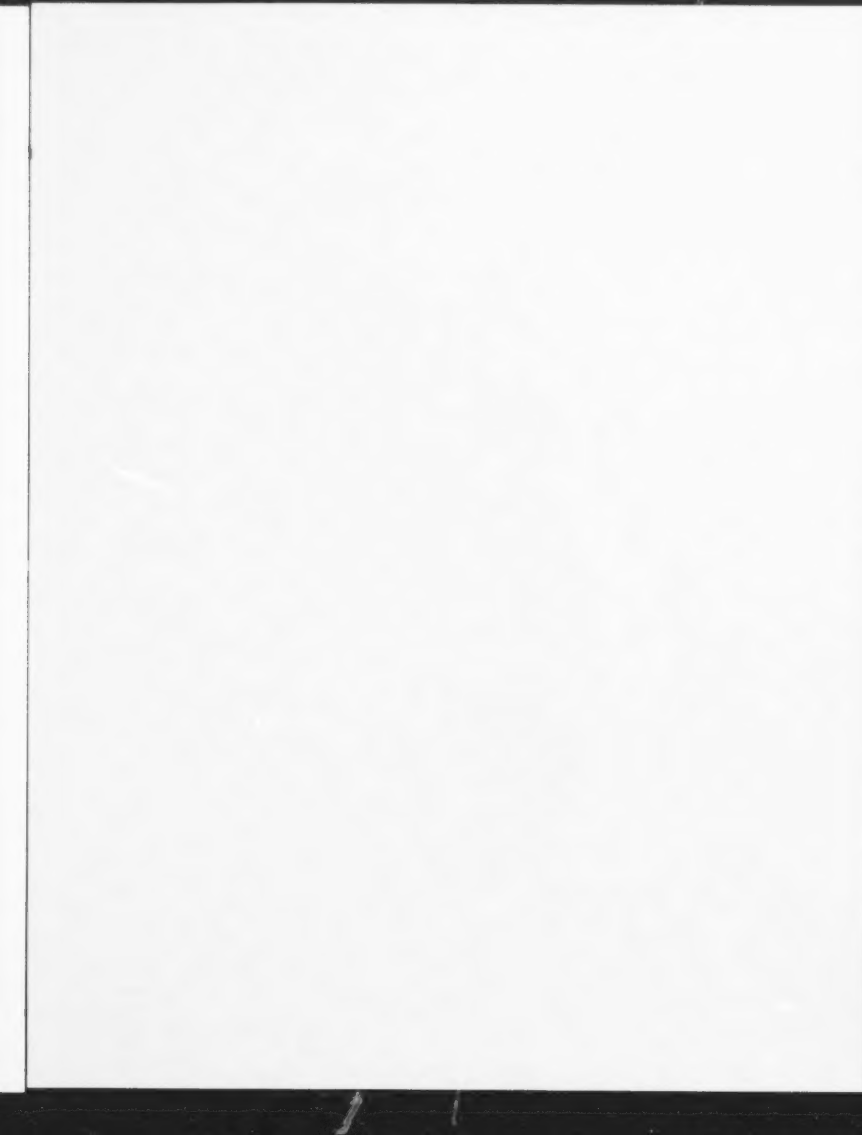






Table 1. Mean (SD) age, height, weight, and body mass index (BMI) of the 100 children in the study

Measure	Mean (SD)
Age (years)	10.2 (0.5)
Height (cm)	145.2 (10.1)
Weight (kg)	38.5 (10.2)
BMI (kg m ⁻²)	18.6 (3.2)

children were asked to perform a series of tasks designed to assess their ability to perform a range of physical activities. The tasks were performed in a sequence, and the order of the tasks was randomized.

The first task was a 100 m sprint. The children were asked to run as fast as they could for 100 m. The time taken to complete the sprint was recorded.

The second task was a 100 m shuttle run. The children were asked to run back and forth between two lines 50 m apart for 100 m. The time taken to complete the shuttle run was recorded.

The third task was a 100 m obstacle course. The children were asked to run a 100 m course that included a series of obstacles. The time taken to complete the obstacle course was recorded.

The fourth task was a 100 m relay race. The children were asked to run a 100 m relay race in which they had to pass a baton to a partner. The time taken to complete the relay race was recorded.

The fifth task was a 100 m endurance run. The children were asked to run a 100 m course as fast as they could for 100 m. The time taken to complete the endurance run was recorded.

The sixth task was a 100 m agility test. The children were asked to run a 100 m course that included a series of cones. The time taken to complete the agility test was recorded.

The seventh task was a 100 m speed test. The children were asked to run a 100 m course as fast as they could for 100 m. The time taken to complete the speed test was recorded.

The eighth task was a 100 m power test. The children were asked to run a 100 m course as fast as they could for 100 m. The time taken to complete the power test was recorded.

The ninth task was a 100 m endurance test. The children were asked to run a 100 m course as fast as they could for 100 m. The time taken to complete the endurance test was recorded.

The tenth task was a 100 m speed test. The children were asked to run a 100 m course as fast as they could for 100 m. The time taken to complete the speed test was recorded.

